1997

Venator

Annual Report

VENATOR
PETROLEUM
COMPANY LTD

Highlights

	% Change	1997	1996
FINANCIAL			
Revenues	+20%	$ **4,032,439**	$ 3,347,935
Net production income	+20%	$ **3,614,782**	$ 3,001,006
Cash generated from operations	+ 8%	$ **2,159,558**	$ 2,001,692
Cash generated from operations per share	+ 6%	$ **0.35**	$ 0.33
Cash generated from operations per BOE	- 15%	$ 11.16	$ 13.16
Net earnings	+ 8%	$ **682,600**	$ 630,539
Capital expenditures	+16%	$ **3,972,914**	$ 3,420,615
Net asset value (15% NPW)	+46%	$ 17,369,358	$ 11,394,900
Net asset value per share	+43%	$ **2.69**	$ 1.88
Common shares outstanding at year end	+ 7%	**6,465,394**	6,065,394
PRODUCTION (Before royalties)			
Crude oil and gas liquids - barrels per day	+21%	**410**	338
Natural gas - thousand cubic feet per day	+53%	**1,198**	782
Total barrels of oil equivalent (BOE)	+27%	**530**	416
DRILLING (Gross wells)			
Gas completions		**2**	1
Oil completions		**2**	27
Waterflood injectors		**0**	29
Dry and abandoned		**2**	5
Total wells		**6**	62
UNDEVELOPED LANDHOLDINGS (Acres)			
Gross	+23%	**33,760**	27,520
Net	+41%	**20,099**	14,277

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Corporate Profile

Venator Petroleum Company Ltd. is a junior oil and gas company engaged in exploration, development and producing operations in Western Canada. As at December 31, 1997, 6,465,394 common shares were issued and outstanding. The Company is listed on the Alberta Stock Exchange.

Annual Meeting

The Annual Meeting of Shareholders will be held on Friday, June 5, 1998 at 2:00 p.m., in Viking Room 'A' of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

In 1997, Venator posted record results both on a financial and an operating basis.

Report to Shareholders

Production levels rose 27% to average 530 BOE/d from 416 BOE/d. Revenue from oil and gas sales rose 20% to $4,032,439 compared with $3,347,935 in 1996 while cashflow generated from operations rose 8% to $2,159,558 ($0.35 per share) from $2,001,692 ($0.33 per share). Net earnings increased 8% to $682,600 ($0.11 per share) from $630,539 ($0.10 per share) in 1996.

In 1997, Venator invested two thirds of its capital budget on bringing new production onstream and acquiring undeveloped land to expand core areas. As a result, the relatively large reserves that we booked in 1996 were brought into production, favorably impacting production levels and asset values.

Based on year-end production levels exceeding 600 BOE/d, the net asset value of the Company (15% NPW, Probables risked 50%) increased 46% to $17,369,358 ($2.69 per share) from $11,394,900 ($1.88 per share) in 1996. Our large investment in undeveloped land at key core areas will provide Venator with the opportunity for future reserve growth that will translate into increased share value.

1997 HIGHLIGHTS • 1997 saw the completion of the Progress Doe Creek Unit (7.87% W.I.) infill drilling, flowlining and battery construction program. Gross production volumes are ahead of forecast at 1565 b/d (123 b/d net) with a gradual increase expected throughout 1998.

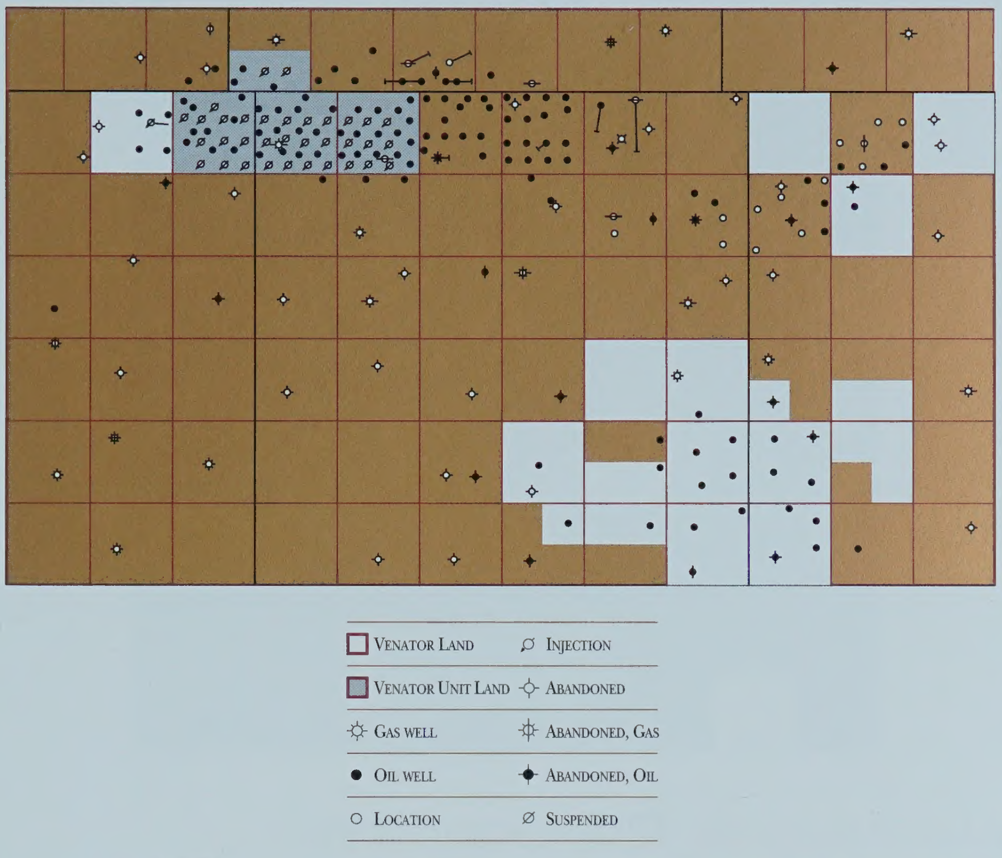
At Enchant, the Company drilled and completed two successful oilwells (58% & 30% W.I.) each capable of producing 100 b/d, increased its ownership in the area oil battery and flowlined several wells thereby lowering operating costs and conserving natural gas.

On the gas side, Venator developed an exciting prospect at Wapiti which gathered momentum as the year progressed. An initial farmout well, drilled at no cost to Venator, was successful and is onstream producing about 320 BOE/d. The Company has a 15% royalty convertible to a 50% interest at payout. During the year, Venator participated at various land sales and acquired an undeveloped land position totaling 5760 gross acres (2496 net acres) in this area. We also farmed out a portion of the lands, reserving rights to the producing zone, for a well testing the Triassic section which was drilled in late 1997 and is currently standing.

At Sinclair, the Company's 100% owned well performed better than expected upon tie in last March. The well is a very steady producer and is netting about 128 BOE/d to Venator.

1998 OUTLOOK • Venator entered 1998 in a relatively strong financial and operating position. Gas prices appear favourable both on aggregated and spot volumes with Venator experiencing an increasing mix of gas production. Late last year we hedged 100 b/d of oil production through September, 1998 at an average price of $28.70 Cdn. which will soften the impact of the recent crude oil price decline. The Company has completed the issue of 400,000 flow through common shares at $2.40 per share for net proceeds of $960,000. This financing allowed

Progress / Spirit River



Venator to exit the year with a sound balance sheet with debt equal to 1.1 times trailing cash flow.

Venator has consistently used a balanced approach to invest in exploration, development and acquisition opportunities. This program will continue in 1998 and we have exciting exploration potential for large gas production additions at Wapiti. One well (50%) is currently planned and additional prospects may be mapped as well data from several industry cased wells near Venator land becomes available.

Development activity will continue at Enchant and Spirit River. Significant upside for light oil reserves and production exists at the Progress East undeveloped lands as the operators of offset lands are delineating the area with drilling. Venator continues to evaluate acquisition opportunities for long life, high quality production purchases.

At the Shareholders meeting on June 6, 1997 Mr. Bruce Watson, a long standing director, did not stand for re-election and a new director, Mr. David van der Lee was elected to the Board. We wish to thank Mr. Watson for his many years of contributing excellent business advice to the Board. We welcome Mr. van der Lee on the Board of Venator and look forward to his advice and direction.

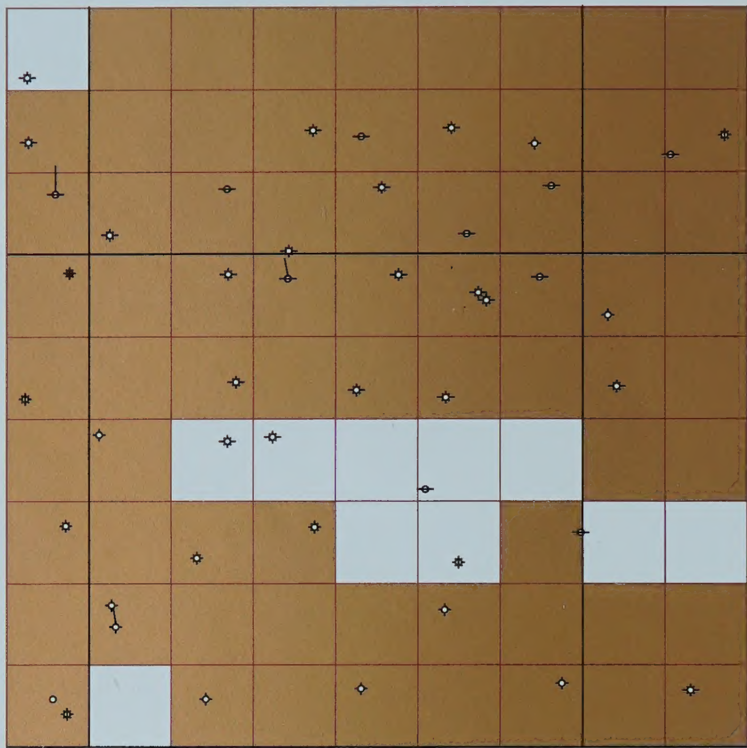
We also wish to thank you, our shareholders, for your continued support and encouragement.

On behalf of the Board,

Ben F. Van Sant

Ben F. Van Sant
President, Director
April 15, 1998

Wapiti



Exploration & Development

PROGRESS, PROGRESS EAST AND SPIRIT RIVER • Production continued to increase at the Progress Doe Creek Unit (7.87 % W.I.) following the full implementation of the 49-well infill waterflood program in early 1997. Production rose from 1,080 b/d (85 b/d net) to current levels of 1565 b/d (123 b/d net). Further infill opportunities exist within the unit.

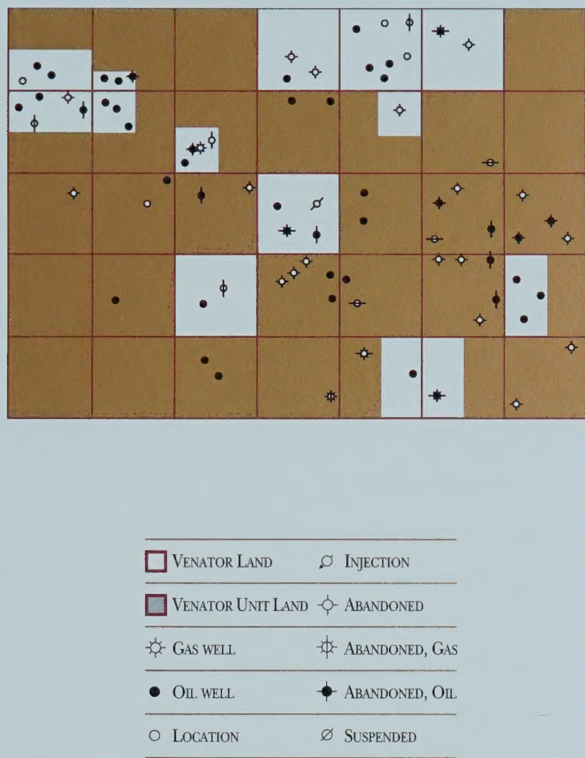
Venator has one section (26.67% W.I.) of non-unit land at Progress immediately to the west of the unit producing about 70 b/d (18 b/d net). We recently converted a horizontal producer into a water injection well which should increase production and recovery in nearby producers. This section also contains a number of potential infill locations.

At Progress East, Venator has 0.5 sections at 100% W.I., 2.0 sections at 50% W.I. and 1.5 sections at 30% W.I. An active drilling program (18 wells) by Anderson Exploration on the immediate offset lands will help prove up Venator's land. The play consists of a shallow, high quality, light oil reservoir with excellent waterflood potential. Venator has budgeted four wells this year to delineate development plans for exploiting this field.

At Spirit River, Venator has initiated the unitization and waterflood of the Charlie Lake E & M pool. Initial injection tests have proven successful with rates of up to 800 barrels of water per day. A pilot waterflood and unitization is anticipated this year which, if successful, should more than double recoveries for the field. We anticipate about a 15% interest in the unit.

WAPITI • A successful exploratory gas play was drilled at Wapiti (15 miles southwest of Grande Prairie) in 1997. The initial well was placed onstream

Enchant



in December 1997 and has maintained production of approximately 2.0 mmcf/d of natural gas and 120 b/d of natural gas liquids. A second, farm-out well (deep rights) was drilled and is currently being evaluated. An additional 10 sections (Venator 20% - 50%) was purchased in this multizone, gas prone area during the year. A follow up well is anticipated later in the year. The well logs from several industry wells drilled and cased in 1997 and offsetting Venator land became "public" or available during 1998. Further drilling may occur upon interpretation of these wells.

ENCHANT • Development drilling, workovers and tie-in operations helped Venator improve production from 110 BOE/d in 1996 to current levels of about 180 BOE/d. Development drilling of two wells, 2-35 (58%) and 3-32 (30%) and tie-in and subsequent stimulation of the 14-36 well accounted for the gains. Further tie-in programs were also completed in 1997, allowing for gas conservation and future waterflood projects. Current analysis indicates that oil recoveries can be improved to about 40% by secondary methods.

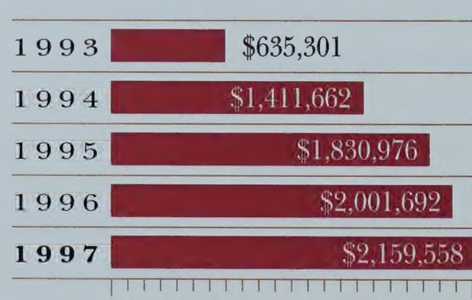
NEW PROSPECTS • The Company continues to acquire land and develop new plays in the Peace River Arch and Southern Alberta. During the year, 5254 net acres of undeveloped exploration acreage were purchased. Venator has maintained its strategy of developing and enhancing long reserve life / light oil and focusing exploration towards multizone gas prospects. Venator will continue evaluating acquisition opportunities for long life, high quality production.

Operation Highlights

	1997	1996
PRODUCTION		
Crude oil (b/d)	**370**	338
Natural gas liquids (b/d)	**40**	–
Natural gas (mcf/d)	**1,199**	782
Total (BOE/d)	**530**	416
PRICES REALIZED		
Crude oil (per bbl)	$ **21.89**	$ 25.18
Natural gas (per mcf)	$ **1.56**	$ 1.11
Average (per BOE)	$ **20.46**	$ 22.53
EXPENSES AND NETBACKS		
Average BOE operating expense	$ **5.44**	$ 4.68
Average BOE royalty expense	$ **2.20**	$ 2.28
Average oil netback (per bbl)	$ **14.25**	$ 18.22
Average gas netback (per mcf)	$ **0.79**	$ 0.41
Average netback BOE	$ **12.82**	$ 15.57
G & A expense per BOE	$ **1.62**	$ 1.78
Cashflow per BOE	$ **11.16**	$ 13.16

Net Earnings

Cash Flow



Management's Discussion & Financial Analysis

REVENUES AND EXPENSES • Production revenues increased 20% to $4,032,439 in 1997 from $3,347,935 in 1996 due to increased production volumes for both oil and gas and improved gas pricing. Crude oil prices were 13% weaker at $21.89 per barrel which included a gain of $79,279 from a crude oil hedge in place during the first nine months of 1997. Gas prices improved to $1.56 per mcf from $1.11 a year earlier as Venator contracted the majority of its existing gas production with Pan-Alberta effective November 1, 1997.

Average operating netbacks decreased 18% to $12.82 per BOE from $15.57 per BOE due to lower average oil prices and an increase in operating expenses ($5.44 per BOE vs. $4.68 per BOE) as general price levels for services and materials increased. General and administrative expenses decreased on a BOE basis to $1.62 from $1.78 in 1996. Cash generated from operations increased 8% to $2,159,558 ($0.35 per share) while cash generated from operations per BOE decreased 15% to $11.16 per BOE. Net earnings increased 8% to $682,600.

EQUITY AND CAPITAL RESOURCES • Net capital expenditures for the year increased 14% to $3,972,914. The majority of the 1997 expenditures ($2,649,739) were directed toward investment in facilities, well workovers and tie-ins and purchasing undeveloped land. Major expenditures include $1,074,936 for undeveloped land at Wapiti; $556,488 for waterflood facilities at the Progress Doe Creek Unit; $381,945 for equipping and tie-in of the Sinclair 6-10 well; and $658,480 for workovers, tie-ins and battery equalization at Enchant. At Progress East, the Company sold one-half of its undeveloped land to a third party for $440,000 recovering twice its investment cost and retaining an interest in the property.

The Company entered into a Flow Through Share Agreement with NCE Resources (97) Limited Partnership in December, 1997 for the issue of 400,000 shares at a price of $2.40 per share for net proceeds of $960,000. Common shares outstanding increased to 6,465,394 due to this Agreement. A negative working capital balance of $2,321,903 is 1.1 times 1997 cashflow.

NET ASSET VALUE • The Company's petroleum and natural gas properties, utilizing escalating prices, were evaluated by McDaniel and Associates, an independent engineering company, as of December 31, 1997. The Company's net undeveloped land position of 20,099 acres was evaluated by an independent land consultant, Sapphire Resources Ltd. The net asset value per share has increased 43% to $2.69 from $1.88 recorded in 1996 (15% NPW discount rate, probable reserves risked 50%).

PERFORMANCE MEASURES • The Company increased its proved and probable reserves (including production) by 563,933 BOE or 23% in 1997. Net capital expenditures of $3,972,914 resulted in a finding, development and onstream cost of $7.05 per BOE (1996: $3.41). This finding cost is historically high for Venator and is due to the high allocation of 1997 capital to facilities and undeveloped land. The reserve replacement ratio was 2.9 (1996: 6.6) and the reinvestment efficiency or recycle ratio was 1.82 (1996: 4.6). These values were both lower as the relatively large reserve bookings in 1996 were translated into increasing production levels and asset values for 1997 through onstream and facility investment.

1997 Reserve Reconciliation

	Proven			Probable			Total
	Oil (bbl)	*NGL (bbl)*	*Gas (mcf)*	*Oil (bbl)*	*NGL (bbl)*	*Gas (mcf)*	*BOE*
Reserves Dec. 31, 1996	1,293,759	30,608	2,383,781	757,992	17,274	1,313,879	2,453,438
Additions	243,980	115,781	1,849,250	7,108	2,526	440,921	
Dispositions							
Production	135,039	14,789	437,431				
Reserves Dec. 31, 1997	1,402,700	131,600	3,795,600	765,100	19,800	1,754,800	2,823,800

Oil and Natural Gas Revenue

	% Change	**1997**	1996
Crude oil	+ 6%	$ **3,193,692**	$ 3,020,958
Natural gas and gas liquids	+156%	**838,747**	326,977
Total		$ **4,032,439**	$ 3,347,935

Net Asset Value

	NPW 15%	NPW 10%
P & NG Properties (Probables Risked 50%)	$ 17,226,100	$ 21,195,200
Net Working Capital	(2,321,903)	(2,321,903)
Undeveloped Land	2,465,161	2,465,161
Net Asset Value	$17,369,358	$21,338,458
Net Asset Value Per Share (6,465,394 shares outstanding) (1996: $1.88)	$ 2.69	$ 3.30

Management's Report

The accompanying financial statements of Venator Petroleum Company Ltd. and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts that are based on management's best estimates. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the financial statements in all material respects.

In fulfilling their responsibilities, management of Venator Petroleum ensures that systems of internal accounting controls are designed to provide reasonable assurance that assets are safe-guarded and financial records are properly maintained to provide reliable financial statements.

External Auditors appointed by the shareholders have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these financial statements with management (and the auditors) and has reported to the Board of Directors. The Board has approved the financial statements.

Ben F. Van Sant

Ben F. Van Sant
President, Director
April 15, 1998

Auditors' Report

TO THE SHAREHOLDERS OF VENATOR PETROLEUM COMPANY LTD.

We have audited the balance sheets of Venator Petroleum Company Ltd. as at December 31, 1997 and 1996 and the statements of operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Doane Raymond.

Chartered Accountants
Calgary, Alberta
February 27, 1998

Venator Petroleum Company Ltd.

Balance Sheet

	December 31, 1997	December 31, 1996
ASSETS		
Current		
Accounts receivable	**705,402**	563,039
Property and equipment *(Note 3)*	**12,074,872**	9,096,288
	$ 12,780,274	$ 9,659,327
LIABILITIES		
Current		
Bank indebtedness *(Note 4)*	**$ 1,664,682**	$ 804,412
Accounts payable	**1,357,023**	1,227,172
Income taxes payable	**5,600**	–
	3,027,305	2,031,584
Provision for site restoration and abandonments *(Note 5)*	**176,300**	156,600
Deferred income taxes	**1,574,330**	1,049,890
	4,777,935	3,238,074
SHAREHOLDERS' EQUITY		
Capital stock *(Note 6)*	**5,367,162**	4,468,676
Retained earnings	**2,635,177**	1,952,577
	8,002,339	6,421,253
	$ 12,780,274	$ 9,659,327

See accompanying notes to the financial statements.

On behalf of the Board

Director

Director

Venator Petroleum Company Ltd.

Statement of Operations

	Year ended December 31, 1997	Year ended December 31, 1996
REVENUE		
Petroleum and natural gas sales	$ 4,032,439	$ [illegible]
Royalties net	(426,708)	[illegible]
	3,605,731	[illegible]
Interest and other income	9,051	[illegible]
	3,614,782	[illegible]
EXPENSES		
Operating	1,052,963	[illegible]
General and administrative	314,234	[illegible]
Depletion and depreciation	952,518	[illegible]
Interest	82,427	[illegible]
	2,402,142	[illegible]
Earnings before income taxes	1,212,640	[illegible]
Income taxes *(Note 7)*		
Current	5,600	—
Deferred	524,440	121,000
	530,040	121,000
NET EARNINGS	682,600	[illegible]
Retained earnings, beginning of year	1,952,577	[illegible]
Retained earnings, end of year	$ 2,635,177	$ 1,952,577
EARNINGS per share		
Basic	$ 0.11	$ 0.10

See accompanying notes to the financial statements.

Venator Petroleum Company Ltd.

Statement of Changes in Financial Position

	Year ended December 31, 1997	Year ended December 31, 1996
CASH DERIVED FROM (applied to)		
OPERATING		
Net earnings	$ 682,600	$ 630,539
Depletion and depreciation	952,518	950,153
Deferred income taxes	524,440	421,000
	2,159,558	2,001,692
Change in non-cash operating working capital items	(6,914)	1,181,330
	2,152,644	3,183,022
FINANCING		
Issue of flow-through shares	960,000	–
INVESTING		
Additions to property and equipment	(4,595,211)	(4,268,673)
Proceeds on disposition of property and equipment	622,297	848,058
	(3,972,914)	(3,420,615)
Net decrease in cash	(860,270)	(237,593)
Bank indebtedness, beginning of year	(804,412)	566,819)
Bank indebtedness, end of year	$ (1,664,682)	$ (804,412)
Cash flow from operations per share	$ 0.35	$ 0.33

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 1997

Note 1. NATURE OF OPERATIONS

The Company is engaged in the exploration for and production of petroleum and natural gas in Western Canada.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

a) Property and equipment

i) Capitalized costs • The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells, less estimated tax benefits transferred to shareholders pursuant to flow-through share issues. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

ii) Depletion and depreciation • Depletion of petroleum and natural gas properties and depreciation of production equipment is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves. The costs of significant unevaluated properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated over the estimated useful life of the asset at declining balance rates ranging from 20% to 100%.

iii) Ceiling test • In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of petroleum and natural gas properties and production equipment, net of recorded deferred income taxes and the accumulated provision for site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of proven reserves. Net cash flow is estimated using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

b) Future site restoration and abandonment costs • Estimated future costs relating to site restoration and abandonments are provided for over the life of proved reserves on a unit-of-production basis. Costs are estimated, net of expected recoveries based upon current legislation, costs, technology and industry standards. The annual provision is recorded as additional depletion and depreciation. The accumulated provision is reflected as a non-current liability and actual expenditures are charged against the accumulated provision when incurred.

c) Measurement uncertainty and the use of estimates • The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these financial statements.

d) Financial instruments • The Company has estimated the fair value of its financial instruments which include cash and accounts receivable, accounts payable and accrued liabilities and income taxes payable. The Company has used valuation methodologies and market information available as at year end and has determined that the carrying amounts of such financial instruments approximate fair value in all cases.

The Company periodically enters into contracts to hedge its exposure to price declines on a portion of its petroleum production. Gains or losses on these contracts are netted against revenue in the related production period.

e) Joint operations • Substantially all petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

f) Flow-through common shares • Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated tax benefits transferred to shareholders.

Note 3. PROPERTY AND EQUIPMENT

	December 31, 1997	December 31, 1996
Petroleum and natural gas properties	**$ 13,314,181**	$ 11,036,263
Tax benefits transferred to shareholders	**(1,151,463)**	(1,089,949)
	12,162,718	9,946,314
Accumulated depletion	**(3,408,210)**	(2,750,131)
	8,754,508	7,196,183
Production equipment	**4,514,539**	2,824,377
Office equipment	**42,368**	37,533
Accumulated depreciation	**(1,236,543)**	(961,805)
	3,320,364	1,900,105
	$ 12,074,872	$ 9,096,288

During 1997, the Company capitalized general and administrative expenses of $191,741 (1996 - $180,238) related to acquisition, exploration and development activities.

At December 31, 1997, petroleum and natural gas properties include $892,000 (1996 - $700,000) relating to unproved properties which have been excluded from the depletion calculation.

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. As a result, petroleum and natural gas properties with a cost of $2,733,422 (1996 - $2,602,541) have no cost basis for income tax purposes and are carried net of the estimated tax benefits transferred to shareholders.

During 1997, the Company reduced the carrying value of petroleum and natural gas properties, by $61,514 (1996 - Nil) to recognize the foregone tax benefits to the Company of qualifying exploration and development expenditures incurred and renounced to the purchasers of its flow-through shares.

Note 4. BANK INDEBTEDNESS

Bank indebtedness is comprised of a demand loan in the amount of $2,270,000 (1996 – 335,000), net of cash balances on hand.

The demand bank loan was advanced pursuant to a credit facility in the maximum amount of $3,000,000. The loan bears interest at the bank prime rate plus 0.25%. The Company has pledged as security for the debt a $2,000,000 floating charge oil and gas debenture covering substantially all of the Company's petroleum and natural gas properties, as well as a General Security Agreement and floating charge on land.

Note 5. FUTURE SITE RESTORATION AND ABANDONMENT COSTS

At December 31, 1997, the total future costs of well abandonments and site restorations, net of expected recoveries, are estimated to aggregate approximately $409,700 (1996 - $367,400).

Note 6. CAPITAL STOCK

a) Authorized:

Unlimited number of common shares without par value.
Unlimited number of Class A preferred shares issuable in series.
Unlimited number of Class B preferred shares issuable in series.

b) Issued:	**1997**		**1996**	
	# of Shares	Stated Value	# of Shares	Stated Value
Beginning of year	6,065,394	$ **4,468, 676**	6,065,394	$ **4,468, 676**
Flow through shares issued	400,000	960,000	–	–
Tax effect renounced expenditures		(61,514)	–	–
End of year	6,465,394	$ 5,367,162	6,065,394	$ 4,468,676

On December 4, 1997, the Company issued 400,000 flow-through common shares through a Private Placement at a price of $2.40 per share for gross proceeds of $960,000.

c) Flow-through shares • Under the terms of the current year flow-through common share agreement, the Company is required to expend the proceeds of $960,000 on qualifying petroleum and natural gas expenditures prior to December 31, 1998. To December 31, 1997 the Company incurred qualifying expenditures of $130,881.

d) Outstanding options • Under share option agreements, the Company has reserved common shares for issuance to eligible participants. At December 31, 1997, options for 528,422 common shares (1996 – 348,422) were outstanding with exercise prices ranging from $0.76 to $1.90 per share (weighted average price being $1.25 per share) and expiration dates between June 27, 1998 and December 2, 2002.

Note 7. INCOME TAXES

Provision for income taxes • The total provision for income taxes differs from the expected amount calculated by applying the combined basic Federal and Provincial tax rate of approximately 44.6% to earnings before income taxes. This difference results from the following items:

	December 31, 1997	December 31, 1996
Expected income tax expense	**$ 541,000**	$ 469,000
Increase (decrease) resulting from:		
Non-deductible crown charges	**271,697**	248,000
Depletion of assets without a tax base	**25,000**	30,000
Resource allowance	**(226,000)**	(235,000)
Royalty tax credits	**(73,000)**	(102,000)
Other deductions and adjustments	**(8,657)**	11,000
Provision for income taxes	**$ 530,040**	$ 421,000

Available tax deductions • The Company has available the following approximate amounts which may be deducted in determining taxable income of future years. The amounts are deductible at the annual rates indicated:

	Rate	**December 31, 1997**	December 31, 1996
Canadian exploration expense	100%	**$ 805,000**	$ 906,600
Canadian development expense	30%	**$ 1,676,000**	$ 1,552,600
Canadian oil and gas property expense	10%	**$ 2,546,000**	$ 1,918,000
Undepreciated capital cost	20%	**$ 2,551,000**	$ 1,424,600
Share issue costs	20%	**$ 16,000**	$ 50,700

Note 8. EARNINGS PER SHARE

Earnings per share and cash flow from operations per share is calculated based upon the weighted average number of common shares outstanding during the year. The exercise of outstanding options have no material dilutive effect on earnings per share and cash flow from operations per share.

Note 9. RISK MANAGEMENT

In October, 1997, the Company hedged 100 barrels per day of crude oil production until September, 1998 at an average price of $28.70 Cdn. per barrel.

Note 10. COMPARATIVE FIGURES

Certain of the 1996 comparative figures have been reclassified to conform with the current year's financial statement presentation.

Board of Directors

Robert M. Libin
Calgary, Alberta

Byron J. Seaman
Calgary, Alberta

Benjamin F. Van Sant
Calgary, Alberta

Anthony R. van Winkoop
Calgary, Alberta

David van der Lee
Calgary, Alberta

Corporate Officers

Benjamin F. Van Sant
President

Anthony R. van Winkoop
Vice-President, Exploration and Operations

Mark S. McKean
Chief Geologist

Abbreviations Used

Item	Definition
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
b/d	barrels per day
BOE	barrels of oil equivalent (10 mcf per bbl)
BOE/d	barrels of oil equivalent per day

VENATOR

PETROLEUM

COMPANY LTD

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Stock Exchange Listing
Alberta Stock Exchange
Trading Symbol - VTP

Registrar & Transfer Agent
Montreal Trust
#600, 530 - 8th Avenue S.W.
Calgary, Alberta
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Auditors
Doane Raymond
Chartered Accountants
Calgary, Alberta